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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

APR 22 1994

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)
)
Petition for Rulemaking to Amend)
Part 32 of the Commission's Rules,)
Uniform System of Accounts for)
Class A and Class B Telephone)
Companies to Increase the Dollar)
Limit for Expensing the Cost of)
Individual Items of Equipment)

RM-8448

**COMMENTS IN SUPPORT OF THE UNITED STATES
TELEPHONE ASSOCIATION'S PETITION FOR RULEMAKING**

U S WEST Communications, Inc. ("U S WEST"), pursuant to Public Notice,¹ files these comments in support of the United States Telephone Association's ("USTA") Petition for Rulemaking² as it enables exchange carriers to reduce costs and become more efficient without impacting ratepayers in any adverse manner. Specifically, U S WEST supports the proposal to increase the dollar limit for expensing the cost of certain individual items of equipment from the current \$500 to \$2000 and to permit exchange carriers to amortize the previously capitalized underpreciated investment over a three-to-five-year period beginning January 1, 1995, or, at the exchange carrier's option, on January 1, 1994.

Competition and price cap regulation make it imperative that exchange carriers become more efficient, both in the way services

¹Public Notice, Report No. 2002, rel. Mar. 23, 1994.

²Petition for Rulemaking of the United States Telephone Association filed Mar. 1, 1994 ("Petition").

are delivered to customers and accounted for internally. Internal process efficiencies are significant factors which will impact exchange carriers' ability to compete in the future. Raising the expense limit to \$2000 will allow exchange carriers to act more like nonregulated competitive industries and gain internal efficiency through the reduction of a significant amount of high-volume, low-cost asset tracking.

The regulatory shift from cost-based ratemaking to a more competitive price cap structure requires sufficient freedom to act like other competitive industries in the way internal accounts are handled. USTA, in citing a 1986 Coopers & Lybrand study, notes that 90 percent of companies surveyed at that time used an expense limit over \$500.³ Common sense would lead to a reasonable belief that the average expense limit for competitive industries has risen significantly in the eight years since that study. A \$2000 expense limit is not unreasonable by any consideration, including Generally Accepted Accounting Principles and other competitive industry standards.

As USTA notes in its Petition, several significant changes have taken place since the rule was last revised in 1988.⁴ Most notable is the increased level of competition local exchange carriers are experiencing from a variety of sources, including interexchange carriers, cable television companies, competitive access providers, cellular companies, and personal communications

³USTA Petition at 3.

⁴Id. at 3-4.

services. While the full impact of this competition may not have yet been realized, modification of the rules based upon a previously noncompetitive environment needs to be examined and updated to allow equal footing with potential competitors going forward. Approval of the USTA Petition and subsequent increase of the expense limit to \$2000 will help to provide that level playing field in which competitive efficiencies can be realized.

The consideration of the impact to the rate base is no longer a significant issue. Previously, under rate of return regulation, the requested change may have impacted an exchange carrier's revenue requirement and, therefore, the rates charged to customers. Under current alternative forms of regulation, including price caps, there is no longer a cause-and-effect relationship between expenses and rates. Thus, the expense limit rule may be updated without directly affecting the rates charged to customers.

The administrative costs associated with accounting for relatively low-value capital items are significant.⁵ The necessity of processing, recording, tracking, and retiring low-cost, high-volume items puts an exchange carrier at a competitive disadvantage in relation to other competitors who can choose to expense these items. The cost savings and other administrative efficiencies gained by this small change will benefit both the

⁵Under the current rules, an item of furniture costing over \$500 would need to be depreciated over a period of 15 to 20 years. During that entire time, it would need to be maintained and tracked in accounting records as a separate item.

exchange carriers and their customers through the redirection of resources to productive, service-impacting pursuits.⁶

To further ensure a smooth transition, U S WEST supports USTA's suggestion of a flexible amortization period of three-to-five years which allows carriers to amortize the embedded net book value over each individual company's remaining asset life for the accounts covered by the Petition. As USTA notes in its Petition, by doing so, the expense shift for the embedded portion of assets addressed in the Petition would be implemented on a revenue-neutral basis.⁷

Allowing exchange carriers to reduce and eliminate unnecessary costs is in the public interest and should be a goal of the Commission. U S WEST requests that the USTA Petition for

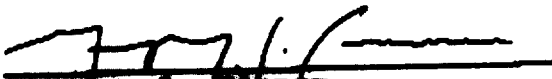
⁶Furthermore, this change would advance the Federal Communication Commission's ("Commission") effort to simplify depreciation as advocated in CC Docket No. 92-296 by reducing the administrative burden of establishing and maintaining depreciation schedules for "small" capital items and minimizing the depreciation reservation deficiency problem arising out of the Commission's use of unrealistic service lives.

⁷Id. at 5.

Rulemaking be granted and a rulemaking proceeding commenced for the rule changes stated therein.

Respectfully submitted,
U S WEST COMMUNICATIONS, INC.

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April 22, 1994

CERTIFICATE OF SERVICE

I, Kelseau Powe, Jr., do hereby certify that on this 22nd day of April, 1994, I have caused a copy of the foregoing **Comments in Support of the United States Telephone Association's Petition for Rulemaking** to be served via first-class United States Mail, postage prepaid, upon the person(s) listed on the attached service list.


Kelseau Powe, Jr.

***Via Hand-Delivery**

(RM-8448/GC/lh)

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